

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

PROPET USA, INC.,)	CASE NO. C06-0186-MAT
)	
Plaintiff,)	
)	
v.)	SECOND ORDER RE: MOTIONS
)	FOR SUMMARY JUDGMENT
LLOYD SHUGART,)	
)	
Defendant.)	
_____)	

INTRODUCTION AND BACKGROUND

This case involves a dispute between plaintiff Propet USA, Inc., a shoe company, and defendant Lloyd Shugart, a photographer, over photographic images taken by defendant of and/or related to plaintiff's products. For a number of years, working as an independent contractor, defendant created such images for use in plaintiff's promotional materials. During this time period, plaintiff paid defendant over \$100,000.00 for his services. (*See* Dkt. 13, ¶ 9.)

At some point in mid-2005, plaintiff terminated its business relationship with defendant. At around that same time, defendant discovered and complained about alleged copyright infringement by plaintiff. (*See* Dkt. 43, Ex. B (defendant's deposition transcript) at 94-98, 118-19,

170-73.) Plaintiff subsequently commenced this case seeking declaratory and injunctive relief in anticipation of a copyright infringement suit by defendant. (Dkt. 7.) Defendant counterclaimed, asserting copyright infringement, violations of The Digital Millennium Copyright Act (DMCA), and “Stolen/Lost Photos[.]” (Dkt. 13.)

The Court previously found defendant entitled to judgment as a matter of law on the issue of his copyright ownership to the various photographic images that are the subject of this dispute. (*See* Dkt. 66.) (*See also* 17 U.S.C. § 204(a) (“A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner’s duly authorized agent.”)) It clarified, however, that this finding did not establish defendant’s right to a judgment with respect to his copyright infringement and related claims given plaintiff’s assertion of an implied, nonexclusive license to utilize the photographic images at issue. At the same time, the Court concluded that genuine issues of material fact precluded a grant of summary judgment as to defendant’s counterclaims based on plaintiff’s asserted implied, nonexclusive license.

At the center of this factual dispute is a “film delivery memo” defendant contends accompanied all of his copyrighted images and expressly limited plaintiff’s use of the images, including, among other terms, a two-year duration of the license to use the images, as well as a seal on all film delivery packages that asserted defendant’s exclusive rights and indicated that plaintiff’s use and license was subject to all terms of the film delivery memo. (*See* Dkt. 63 at ¶¶ 5, 8 and Ex. A and Dkt. 62, Ex. A.) Defendant also points to digital images delivered to plaintiff on CD, noting that the CD envelopes bore a seal, that his copyright was reflected on the face of every CD and upon downloading, and that each digital image contained an embedded copyright

01 image, meaning the copyright notice would show whenever an image was loaded onto a page or
02 photo editing software. (Dkt. 63, ¶¶ 9-10.)

03 Plaintiff denied any knowledge of the film delivery memos or seals, noting that defendant
04 produced only stand-alone copies,¹ and asserted that defendant's invoices and its own cancelled
05 checks (*see* Dkt. 48, Ex. F) make up the sole evidence of contract and do not, in any way, reflect
06 the imposition of any limits on the use of the photographs. However, defendant's former counsel
07 attests to the fact that attorneys for plaintiff returned a box containing film negatives which had
08 a broken seal and attaches a photograph of the box with the broken seal to his declaration. (Dkt.
09 62, ¶¶ 2-5 and Ex. A (the seal reads: "Notice: All file or images contained herein are the exclusive
10 property of Lloyd Shugart, to which Lloyd Shugart retains and holds all rights under copyright
11 laws. Client use and license is subject to all terms of the FILM DELEVERY [stet] MEMO.
12 Terms shall be deemed accepted by Client as acknowledged by written approval and/or the use
13 of the photographs provided by Photographer.")). Defendant further avers that, after a scanning
14 company noticed the digital copyright image and an employee of plaintiff called for a "release"
15 authorizing it to scan images, he advised the employee to use the film delivery memo as the release
16 and that, upon picking up a box of the scanned images from plaintiff's offices, he found that the
17 box contained a copy of the film delivery memo in an envelope from the scanning company, as
18 well as several envelopes with broken seals. (*See* Dkt. 63, ¶¶ 12-13.)

20 ¹ Defendant concedes he does not have a copy of each film delivery memo he allegedly sent
21 with each invoice, explaining: "No. It was a standard invoice that I printed out, and I had a file
22 of film delivery memos that every time I printed an invoice I grabbed the film delivery memo, stuck
it in the envelope and mailed it." (Dkt. 47 at 161.)

01 Plaintiff alternatively argued, even assuming both that defendant delivered the film delivery
02 memo to plaintiff and that plaintiff agreed to the terms of the memo simply by using the
03 photographic images, that the memo's terms are unreasonable and unenforceable. It compared
04 the memo as an attempt to bind it to contract terms in the same way consumers are bound by
05 "shrink wrap" or "click wrap" agreements when purchasing software, noted that some courts have
06 refused to enforce such agreements, and proffered a variety of reasons why defendant cannot
07 enforce his film delivery memo like such an agreement, including the fact that this case does not
08 involve a typical consumer transaction.

09 The Court questioned whether the case law proffered by plaintiff – involving software
10 license agreements – was on point, noted the complication of the question by defendant's failure
11 to offer any specific arguments in opposition and the possible prematurity of the arguments due
12 to the fact that discovery had not been completed, and stated that, although not rejecting the
13 possible viability of the arguments, the Court was unable to find plaintiff entitled to a judgment
14 as a matter of law. The Court likewise found insufficient grounds for granting summary judgment
15 based on plaintiff's remaining arguments, again noting the possible prematurity of the arguments
16 given the ongoing discovery and the existence of apparent genuine issues of material fact.

17 The Court also addressed an argument raised by defendant with respect to the request for
18 injunctive relief in plaintiff's complaint. In its amended complaint, plaintiff seeks injunctive relief:
19 (1) prohibiting defendant from selling or offering for sale on e-bay any of the photographs subject
20 to this suit; (2) prohibiting defendant from transferring any right, title, or interest in the
21 photographs to third parties without advance written approval; and (3) prohibiting defendant from
22 threatening plaintiff's customers with copyright infringement relating to their use of the

01 photographs. (*See* Dkt. 7 at 4.) Defendant argued that, given his copyright ownership, these
02 demands violate one or more of his rights under the Copyright Act. *See* 17 U.S.C. § 106
03 (“Exclusive rights in copyrighted works.”) In response, plaintiff conceded that defendant has the
04 right to sell or license his copyrighted works, but noted that it had not moved for summary
05 judgment as to its own complaint and maintained its continued right of use. The Court found that,
06 while it did seem that plaintiff conceded that at least its first two requests for injunctive relief
07 should be denied, as noted by plaintiff, the issue was not yet properly before the Court.

08 Now before the Court are two additional motions for summary judgment. Defendant seeks
09 partial summary judgment dismissing plaintiff’s complaint seeking injunctive relief. (Dkt. 74.)
10 Plaintiff seeks a ruling as to the existence of an implied nonexclusive license, unrestricted in scope,
11 to use defendant’s photographs during the regular course of advertising its shoes and in conveying
12 the photographs to others who advertise its shoes and make substantially the same use of the
13 photographs as plaintiff, and dismissal of defendant’s counterclaims. (Dkt. 75.) The Court
14 addresses each of these motions below.

15 DISCUSSION

16 Summary judgment is appropriate when “the pleadings, depositions, answers to
17 interrogatories, and admissions on file, together with the affidavits, if any, show that there is no
18 genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter
19 of law.” Fed. R. Civ. P. 56(c); *Celotex Corp. v. Catrett*, 477 U.S. 317, 322 (1986). The moving
20 party is entitled to judgment as a matter of law when the nonmoving party fails to make a sufficient
21 showing on an essential element of his case with respect to which he has the burden of proof.
22 *Celotex*, 477 U.S. at 322-23.

01 Genuine issues of material fact that preclude summary judgment are “disputes over facts
02 that might affect the outcome of the suit under the governing law[.]” *Anderson v. Liberty Lobby,*
03 *Inc.*, 477 U.S. 242, 248 (1986). In deciding a summary judgment motion, the court must view all
04 facts and inferences therefrom in the light most favorable to the nonmoving party. *See Warren*
05 *v. City of Carlsbad*, 58 F.3d 439, 441 (9th Cir. 1995). “[A] party opposing a properly supported
06 motion for summary judgment may not rest upon mere allegation or denials of his pleading, but
07 must set forth specific facts showing that there is a genuine issue for trial.” *Anderson*, 477 U.S.
08 at 256 (citing Fed. R. Civ. P. 56(e)).

09 A. Plaintiff’s Motion for Summary Judgment

10 In support of its second motion for summary judgment, plaintiff points to testimony of
11 defendant attesting to the following: (1) that the only written instruments exchanged between the
12 parties were defendant’s invoices and the film delivery memo (Dkt. 32, ¶¶ 6-7); (2) that defendant
13 delivered film to plaintiff in a sealed package that bore a notice indicating that plaintiff’s use of the
14 film was subject to the terms of the film delivery memo (Dkt. 43, Ex. B at 123-27); (3) that
15 defendant mailed the film delivery memo to plaintiff with his invoice (*id.* at 127); and (4) that
16 defendant has no evidence plaintiff acknowledged the terms of the film delivery memo in writing
17 (*id.* at 71, 162). As argued previously, plaintiff contends that defendant conveyed a nonexclusive
18 license to use the copyrighted works for their intended purpose. Plaintiff further argues that, even
19 giving defendant the benefit of the doubt as to the facts surrounding the film delivery memo and
20 seal, defendant fails to support his contention that the film delivery memo imposed additional
21 terms on plaintiff as a binding contract.

22 A copyright holder may convey an implied license to use a product covered by copyright.

01 *See Effects Assoc. Inc. v. Cohen*, 908 F.2d 555, 558-59 (9th Cir. 1990) (recognizing the “narrow
02 exception” to 17 U.S.C. § 204’s writing requirement through a “‘nonexclusive license’ that may
03 be granted orally or implied by conduct”). *Effects Associates* stands for the principle that a seller
04 grants a buyer an implied license to use a product for the purpose for which the seller sold it to
05 the buyer.” *Foad Consulting Group v. Musil Govan Azzalino*, 270 F.3d 821, 827 n.10 (9th Cir.
06 2001).

07 However, when a license to use a copyrighted work is limited in scope, the licensee
08 infringes the owner’s copyright by using the licensed work outside the scope of the license.
09 *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1087 (9th Cir. 1989); *see also Sun Microsystems, Inc.*
10 *v. Microsoft Corp.*, 188 F.3d 1115, 1121 (9th Cir. 1999) (“If . . . a license is limited in scope and
11 the licensee acts outside the scope, the licensor can bring an action for copyright infringement.”)
12 Courts have recognized the existence of such limited licenses in cases involving photographs
13 subject to time-based use constraints. *See, e.g., Jarvis v. K2 Inc.*, 486 F.3d 526, 530 (9th Cir.
14 2007) (concluding, based on contract language, that the parties agreed photographic images could
15 not be used after a certain time period) (citing 1 Melville B. Nimmer & David Nimmer, Nimmer
16 on Copyright § 3.07[B] (2005) (“[I]f consent to use the underlying material is limited in time, then
17 the owner of the derivative work may not exploit the underlying material beyond the time limit.”));
18 *Greenfield v. Twin Vision Graphics, Inc.*, 268 F. Supp. 2d 358, 382-84 (D. N.J. 2003) (use of
19 copyrighted photographs after expiration of license constituted copyright infringement).

20 Here, it is clear that plaintiff had a license to use defendant’s copyrighted photographs to
21 sell its products. However, the question remains as to whether that license was conditioned by
22 the terms of the film delivery memo, which included, among other terms, a two-year limit on use.

01 Plaintiff argues that defendant bears the burden of proving that plaintiff expressly accepted
02 the additional terms and conditions contained within the film delivery memo and fails to satisfy that
03 burden. (*See* Dkt. 45, Ex. B at 38-39 (defendant attested in his deposition that evidence of
04 plaintiff's acceptance of the terms of the film delivery memo consisted of the following: "They
05 hired me to do the jobs. The initial printed material they marked with my copyright, continued to
06 contract with me to produce images for years going on. . . . Paid all the invoices. . . . Well,
07 that's – provided the written copies – or, the printed pieces.")) Defendant maintains that plaintiff
08 had knowledge, accepted, and is bound to the terms and conditions contained in the film delivery
09 memo, pointing again to the evidence that plaintiff broke a seal on a box which referenced the film
10 delivery memo and his contention that plaintiff returned a set of images with a copy of the memo.
11 (*See* Dkt. 62, ¶¶ 2-5 and Ex. A and Dkt. 63, ¶¶ 12-13.) He asserts that, at the least, plaintiff's
12 state of mind concerning the memo and seal, and what it understood it could and could not do
13 under its license, are material factual issues inappropriate for disposition by way of summary
14 judgment.

15 As an initial matter, the Court notes that none of the evidence relied on by defendant
16 demonstrates plaintiff explicitly assented to the film delivery memo's terms. Instead, defendant
17 seeks to demonstrate plaintiff's assent through plaintiff's apparent knowledge of the film delivery
18 memo and its conduct over a number of years.

19 At the same time, the Court finds plaintiff's contention that Washington law requires
20 evidence of express assent in these circumstances insufficiently supported.² The one case relied

21
22 ² Plaintiff asserts, and defendant does not dispute, that Washington law applies to contract
terms involving copyright licenses. *See, e.g., Rano v. Sipra Press, Inc.*, 987 F.2d 580, 585 n. 2 (9th

on by plaintiff for this assertion, *Arizona Retail Sys. v. Software Link, Inc.*, 831 F. Supp. 759 (D. Arizona 1993), is of questionable application in light of *M. A. Mortenson Co. v. Timberline Software Corp.*, 93 Wash. App. 819, 970 P.2d 803 (Wash. Ct. App. 1999). In the latter case, the Washington Court of Appeals distinguished a case relied on by the *Arizona Retail Sys.* court, and found a software purchaser's conduct in requesting that a program be installed and proceeding to use the software constituted assent to additional terms in a license agreement. *M. A. Mortenson Co.*, 93 Wn. App. at 833-834 (distinguishing *Step-Saver Data Systems, Inc. v. Wyse Tech.*, 939 F.2d 91 (3d Cir. 1991) and acknowledging *Arizona Retail Sys.*, 831 F. Supp. 759, as following *Step-Saver Data Systems, Inc.* in a factually similar case).³ See also *Puget Sound Fin. v. Unisearch*, 146 Wn.2d 428, 437, 47 P.3d 940 (2002) (stating that *M.A. Mortenson Co.*, 140 Wn.2d at 571, 584, "supports a conclusion that Unisearch's agreement with Factors could be

Cir. 1993) (assuming that California law governed the interpretation of the license agreement). The Court assumes for the purposes of this Order that Washington law applies.

³ The continuing viability of *Step-Saver Data Systems, Inc.* and *Arizona Retail Sys.* has also elsewhere been called into question. See, e.g., *I. Lan Sys. v. Netscout Serv. Level Corp.*, 183 F. Supp. 2d 328, 337 (D. Mass. 2002) ("Step-Saver once was the leading case on shrinkwrap agreements. Today that distinction goes to a case favoring NextPoint, *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996). The holding of *ProCD* is best summarized as follows: 'terms inside a box of software bind consumers who use the software after an opportunity to read the terms and to reject them by returning the product.'") The Court additionally clarifies that the court in *Arizona Retail Sys.* first found that the contract governing an initial request for an evaluation diskette was formed only after the purchaser opened the shrink wrap, not when the goods were shipped, and that, accordingly, the purchaser accepted the offer on the seller's terms. 831 F. Supp. at 763-64. Plaintiff addresses only that court's second finding that, with respect to all subsequent purchases of the software, "[t]o the extent that the parties had entered into an agreement before [the purchaser] opened the shrink wrap package, the license agreement would constitute a proposal for modification of the agreement pursuant to section 2-209[]" and "[b]ecause section 2-209 requires assent to proposed modifications[,] the 'assent must be express and cannot be inferred merely from a party's conduct in continuing with the agreement.'" *Id.* at 764 (citing U.C.C. § 2-209).

01 interpreted as a ‘layered’ contract, which incorporates the search reports and sales invoices.”)

02 The briefing on this issue by plaintiff was remarkable in its brevity and minimal citation to
03 supporting law.⁴ Nor did plaintiff take the opportunity to further address the Court’s previously
04 expressed concern as to the proper applicability of the case law involving software license
05 agreements, which would include both *Arizona Retail Sys.* and *M.A. Mortenson Co.*, to this case.
06 Therefore, the Court finds itself unable to decide the issues raised based, in significant part, on the
07 insufficiency of the briefing.

08 While it may well remain that factual disputes will prohibit resolution of these issues on
09 summary judgment,⁵ the Court finds that further briefing on the issues and questions raised herein

10 _____
11 ⁴ In the only other relevant case cited, plaintiff takes a quote related to RCW 62A.2-207(2)
12 out of context. *See Eskay Plastics, Ltd. v. Chappell*, 34 Wash. App. 210, 214, 660 P.2d 764
13 (1983) (stating that RCW 62A.2-207(2) unambiguously provides that, when the parties are both
14 merchants, additional terms in an acceptance become a part of the contract unless: “(a) The offer
15 expressly limits acceptance to the terms of the offer; (b) they materially alter it; or (c) notification
16 of objection to them has already been given or is given within a reasonable time after notice of
17 them is received.”; holding that the burden of proving “the existence of these conditions rests on
18 the party who will benefit therefrom, in [that] case,” a purchaser who did not object and “did not
19 produce evidence that his offer expressly limited acceptance to its terms or that the interest rate
20 amounted to a material alteration of the contract,” and who, thus, “failed in his burden of proof.”)
Further, although the parties have not addressed the issue, it would appear that RCW
62A.2-207(2) is not relevant to this case pursuant to RCW 62A.2-207(1) and in light of the plain
language of the film delivery memo. *See* RCW 62A.2-207(1) (“A definite and seasonable
expression of acceptance or a written confirmation which is sent within a reasonable time operates
as an acceptance even though it states terms additional to or different from those offered or agreed
upon, *unless acceptance is expressly made conditional on assent to the additional or different
terms.*”) (emphasis added) and Dkt. 63, Ex. A (the film delivery memo states: “ *Grant of
reproduction rights hereunder is conditioned upon Client’s acceptance of each term set forth in
this agreement*, including but not limited to, receipt of payment in full by Photographer and
placing the required notice on each use of Photographer’s work.”) (emphasis added).

21 ⁵ In its motion, plaintiff notes defendant’s admission that, unlike a shrink wrap agreement
22 physically attached to a package, defendant separated the film delivery memo from the
photographs. (*See* Dkt. 45, Ex. B at 36-37 (defendant stated in his deposition: “The film delivery

01 would be beneficial to the ultimate resolution of this case. Accordingly, the Court hereby requests
02 that plaintiff submit a supplemental memorandum on or before **August 31, 2007** and that
03 defendant submit a supplemental memorandum on or before **September 7, 2007**. In so doing,
04 both parties should directly address all of the issues and questions discussed above and provide
05 further guidance to the Court as to the appropriate case law and statutory provisions to apply.
06 The Court will withhold ruling on plaintiff's motion for summary judgment pending completion
07 of this supplemental briefing.

08 B. Defendant's Motion for Partial Summary Judgment

09 In its amended complaint, plaintiff seeks declaratory injunctive relief: (1) prohibiting
10 defendant from selling or offering for sale on e-bay any of the photographs subject to this suit; (2)
11 prohibiting defendant from transferring any right, title, or interest in the photographs to third
12 parties without advance written approval; and (3) prohibiting defendant from threatening plaintiff's
13 customers with copyright infringement relating to their use of the photographs. (*See* Dkt. 7 at 4.)
14 Defendant argues that, given his copyright ownership, these demands violate one or more of his
15 rights under the Copyright Act. *See* 17 U.S.C. § 106 ("Exclusive rights in copyrighted works.")
16 As reflected above, in previously addressing this issue, the Court found that, while it did seem that
17 plaintiff conceded that at least its first two requests for injunctive relief should be denied based on
18 defendant's right to sell or license his copyrighted works, the issue was not, at that point, properly
19 before the Court. Defendant now puts the issue before the Court in his motion for partial

20 _____
21 memo went with the invoice which was mailed directly to Propet, and the film went to Ken
22 Johnson directly.")) Because the photographs were accompanied by a seal explicitly referencing
the film delivery memo, this may be a non-issue. Moreover, if anything, this factor appears to add
to defendant's contention as to the existence of a material factual dispute.

01 summary judgment seeking dismissal of plaintiff's injunctive relief claims.

02 The Court has already rendered a judgment as a matter of law on the issue of defendant's
03 copyright ownership. (*See* Dkt. 66 at 3.) Rights attendant to that ownership include, but are not
04 limited to, the rights to reproduce the copyrighted work, to prepare derivative works, and to
05 distribute copies to the public by sale or other transfer of ownership. *See* 17 U.S.C. § 106.

06 In opposing defendant's motion, plaintiff raises concerns as to the possibility that, in using,
07 selling, or transferring his rights with respect to the photographs at issue, defendant may engage
08 in conduct disparaging to plaintiff. It asserts that defendant's conduct with respect to the
09 photographs must be reasonable and not done in a way that interferes with plaintiff's ongoing
10 rights to use its own trademarks and sell its own products, or otherwise interfere with plaintiff's
11 goodwill. However, plaintiff fails to support its contention that these concerns as to potential
12 future conduct of defendant gives rise to a basis for granting the injunctive relief requested.
13 Instead, given defendant's undisputed copyright ownership, the Court finds no basis for granting
14 plaintiff's first two requests for injunctive relief and finds defendant entitled to dismissal of these
15 claims. *Cf. Effects Assoc. Inc.*, 908 F.2d at 559 ("... Effects may license, sell or give away for
16 nothing its remaining rights in the special effects footage. Those rights may not be particularly
17 valuable, of course[.] ... In any event, whatever Effects chooses to do with the footage, Cohen
18 will have no basis for complaining.")

19 However, the Court does agree with plaintiff that resolution of its third request for
20 injunctive relief is contingent on the resolution of plaintiff's motion for summary judgment. That
21 is, should plaintiff prevail in establishing its continued license to use the photographs, this license
22 may extend to plaintiff's customers. The parties have not briefed this issue and the Court is not

01 prepared to rule on plaintiff's summary judgment motion for the reasons described above. As
02 such, the Court does not find defendant entitled to dismissal of plaintiff's third request for
03 injunctive relief at this time.

04 CONCLUSION

05 For the reasons described above, defendant's motion for partial summary judgment
06 dismissing plaintiff's complaint seeking injunctive relief is GRANTED in part and DENIED in
07 part, and the Court requires further briefing before ruling on plaintiff's motion for summary
08 judgment. The parties shall submit the additional briefing in accordance with the directives and
09 schedule outlined above.

10 DATED this 21st day of August, 2007.

11 
12 Mary Alice Theiler
13 United States Magistrate Judge
14
15
16
17
18
19
20
21
22